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Focus on transformation, rather than reactive cost-cutting in manufacturing industries

Dr. Romed Kelp
Hendrik Becker
Tushar Narsana

It is likely that the COVID-19 crisis will have a grave impact on manufacturing firms. Depending on the severity, 60-90 percent of them could experience significant losses. Taking short-term reactive measures are inevitable. But, as the financial crisis 2008/2009 has shown, companies that deployed sustainable cost reduction programs significantly outperformed the competition. In fact, they emerged as strong and profitable winners.

As of May 2020, billions of people all over the globe have been affected by some form of a lockdown. Stock markets are in turmoil and unemployment is on the rise: In the United States alone, the unemployment rate rose to over 15 percent, the highest number since the great depression. Thus, COVID-19 will likely follow the pattern of a broad crisis, resulting in a rather deep decline and a lengthy recovery. The main scenarios on the course of the pandemic itself can be translated to scenarios for manufacturing firms: a one-quarter recession ("V-shape"), a two-quarter recession ("U-shape"), and a four-quarter recession ("L-shape"). (See box for details)

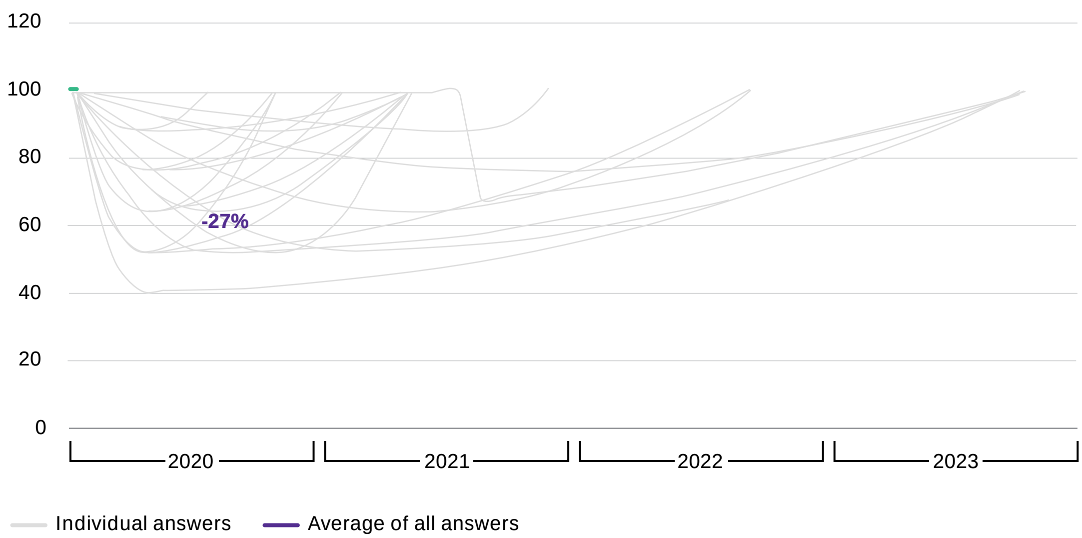
Before COVID-19 broke out, United States manufacturing firms yielded nine percent in earnings before interest and tax (EBIT) in average. The impact on bottom-line results will be significant but dependent on the exact shape of the crisis. Oliver Wyman recently surveyed top-level executives of globally-acting manufacturing firms and found that most expect a "U-shape" scenario. (See Exhibit 2.)

The shape of the crisis

Oliver Wyman has modeled three different COVID-19 scenarios for manufacturing firms: In the "V-shape" scenario, public health measures contain individual outbreaks and COVID-19 lasts for three to four months. The revenue decline mainly shows in Q2 and the economy recovers quickly in Q3 and Q4. In the "U-shape" scenario, the pandemic will break due to seasonality of the virus or virus mutation and COVID-19 will last for six to-a year. This would lead to a revenue decline in Q2 and an even more severe decline in Q3 before revenues recover in Q4. In the most severe "L-shape" or "financial crisis +" scenario, COVID-19 will last more than 12 months and not be affected by seasonality or hard to fight due to mutation. In the result, the revenue decline would persist throughout four quarters starting in Q2 2020.

Exhibit 2. Expected revenue development

Based on expected revenue slump, lowest point in sales and recovery to pre-crisis levels



Most manufacturing f rms have reacted remarkably quickly after the potential magnitude of the pandemic became visible and governments have taken strong countermeasures. Firms initiated short-term liquidity and structural measures like discretionary spend cuts, temporary, and/or permanent workforce reductions. Similarly, cash management and forecasting have, rightly so, moved into the focus (see Exhibit 4.)

Reduction of overtime

Oliver Wyman analysis

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Americas	EMEA	Asia Paci f c
+1 212 541 8100	+44 20 7333 8333	+65 6510 9700